CHAPTER I

INTRODUCTION

"The lack of romance in my history will, I fear, detract from its charm. But if it is useful to those who want an accurate account of the past to help understand the future, ...that is enough."

Thucydides

The energy sector represents one of the commanding heights of the Soviet economy, and oil is a very important constituent of this sector. In 1973 the Soviet Union completed an entire century as an exporter of oil; and in 1974 it graduated as the biggest oil producer of the world - a position which it had lost to the United States of America in 1902. Seeking to regain its traditional place in the world market, it now exports oil to more than thirty countries. Even in these countries it is not the volume of Soviet sales but the manner and terms of sale that have provoked interest and stirred controversy.

Scope

The Soviets have not published much on the economics of their oil. Even the works of A.N. Probst and N.V. Mlnikov do not throw much light on the subject.
In terms of sophistication and attention to detail, they cannot, as studies of the Soviet energy economy, stand comparison with, for instance, Perry D. Teitelbaum's book on the US energy economy or with Adelman's contributions on the world oil market.

However, there is no dearth of books and research papers by Western scholars. Indeed there is here an embarrassment of riches. Works by the National Petroleum Council, Hasemann, Hodgkins, Shimkin, Shabad, Chapelle, Campbell, Klinghoffer, Ebel, and Elliot, which are all listed in the bibliography, deserve special mention. In addition, the CIA and the NATO have kept up the world's interest in Soviet oil and have brought out reports on the subject frequently. However, barring the outstanding work by R.W. Campbell, these are all largely descriptive. Indeed some of them are not quite objective. Even Campbell's book was essentially an effort to understand the process of making of economic policy. Oil economics constituted but a case study. Besides, the book is rather dated, in the sense that it provides data up to the year 1965. The author has not so far issued an updated edition.

The economics of Soviet oil has not also gripped the attention of the scholars of the Third World, who operate in a different intellectual milieu.

The primary object of the present work is to study certain aspects of the Soviet oil industry with a view to assessing the prospects of Soviet oil exports. To appreciate
the real dimensions of the export potential of the Soviet Union, it is imperative to consider the basic facts of the economics of the Soviet oil industry. What is the country's petroleum resources position? What are its production costs, and how are they likely to behave in the future? What are the demands of the internal market likely to be? What demands the other Socialist countries are likely to make upon the Soviet Union?

As a pre-eminent international commodity, oil admirably lends itself for study from several vantage points—economic, political, strategic, etc. Oil, being a political resource par excellence, a divorce of politics and economics in any study of oil is, in a Montesquian sense, hardly conceivable. However, the present inquiry is confined essentially to the economic aspects. Hence, as far as possible, the various political considerations and consequences receive less attention than the economic ones.

Thus the present work is not a study of the politics of Soviet oil exports. Nor is it a study of the production economics of the Soviet oil industry. It does not also deal with oil as a factor in Soviet foreign policy. It examines those issues of production which are relevant to an understanding of the fundamentals of oil exports. Naturally, therefore, some important questions are not even posed; many aspects are only browsed. For instance, factors such as transport and technology have been excluded, not because they are less important to the study, but because they are, being
well-researched areas, do not call for any fresh examination in the context of our study. Besides, there is the constraint of time and space. The exclusion of those factors is indeed an important limitation of this work. However, this limitation does not affect to any significant degree the validity of the conclusions of the study.

Though the study is not intended to be a historical one, at times it does digress into the evolutionary aspects of the question under consideration in order to identify the processes of continuity and change in the development of the industry. It deals with the industry and exports up to 1974, the year in which the Soviet Union became the largest producer of oil. No special effort is made to study Soviet oil exports to India. This is because many scholars have competently dealt with the subject - Tanser, 1 Dasgupta, 2 Datar, 3 Henderson, 4 and Vedavalli 5 being important among them. An additional investment in this subject is hardly likely to yield commensurate return.

Difficulties

The difficulties encountered during this research are of two types. Difficulties of the first type are inherent in the Soviet type of economy itself. The Soviet concept of cost accounting is considerably different from that used in a market economy. According to Marxism, all values are derivatives of labour inputs; capital adds value to production only to the extent it imparts frozen labour. It then follows that under the Soviet system the only capital charges used are depreciation allowances. These, however, do not reflect the relative scarcity of the factor of production. Nor do they represent prices for the use of capital assets. The money costs cannot, therefore, be taken as a measure of the real cost of the resources used in the oil industry. The deficiency in the cost data caused by the exclusion of adequate capital charges is corrected by imputing interest charges. 6

Difficulties of the second type relate to the reliability of data. Though the Soviet Union is more open than before, the quality of the data that are made available is generally far inferior. 7 Like India, the Soviet Union has,


since 1947, classified data relating to oil reserves, refinery runs, and consumption of petroleum products as state secrets. Researchers are, therefore, doubly handicapped; they are harassed by vast areas of darkness and doubt.\(^8\) Soviet oil literature is replete with percentage without the base year datum. And there are too many missing links and too much conceptual vagueness. There is, besides, a good deal of "facts and figures" put out for propaganda purposes. These data obviously need to be identified and put away.

Because of these difficulties, we have, for the present exercise, deemed it best to rely mainly on such Soviet material as has been prepared for professional communication between Soviet experts. Though this limits the quantum of data, it certainly enhances their reliability. Thus a researcher on Soviet oil economics can be compared with a reservoir engineer, one who "takes a limited number of facts, adds numerous assumptions, and arrives at an unlimited number of conclusions".\(^9\)

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Organization of the Study

In attempting to assess the prospects of Soviet oil exports, one should first examine realistically the oil and natural gas industries as an integral part of the energy economy as a whole. Vicissitudes in the growth and development of one affect the growth and behaviour of the other, depending upon the degree of substitution. Chapter 2 sets the perspective for the Soviet energy economy and the role of petroleum. Chapter 3 is concerned with the growth of the oil industry, its resource bases, and the specific constraints that inhibit its expansion. Natural gas is a near substitute for oil. The future export capability of oil, therefore, depends not only on the growth of the oil industry but also on the development of the gas industry. Chapter 4 deals with the potential of the natural gas industry with a view to assessing the prospects of oil exports. The next two chapters deal with various issues of export strategy, export pattern, and the marketing policies of Soviet oil. The last chapter brings the threads together so that certain normative conclusions about the future of Soviet oil exports may be derived.